

# Approaches to Credit Enhancement

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The Mechanics of a Bond Sale

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Oakland Marriott

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## In the Old Days (3 months ago)

- Types of Credit Enhancement
  - Bond Insurance (life of the Issue)
  - Letter of Credit (subject to renewal)
  - State Intercept Programs
- Process
  - Three Years of Financials
  - Authorizing Resolutions
  - Rating Agency (Underlying Rating)
  - Preliminary Official Statement
- Lower borrowing costs and quick access to the public markets

# Since then everything has changed

Auction Rate Securities

Bond Insurers

Collateralized Debt Obligations

Sub prime mortgages



“It is not the strongest of the species that survives,  
nor the most intelligent,  
but the one most responsive to change.”

CHARLES DARWIN:

# Insurance rating are now a fluid situation

Insurance Rating Report Card as of February 22, 2008			
	Moody's	S&P	Fitch
<b>ACA</b>	Not Rated	CCC "developing watch"	Not Rated
<b>AMBAC</b>	Aaa on review for possible downgrade	AAA Negative Watch	AA Negative Watch
<b>ASSURED</b>	Aaa Stable Outlook	AAA Stable Outlook	AAA Stable Outlook
<b>CIFGC</b>	Aaa on review for possible downgrade	AAA Negative Outlook	AAA Negative Watch
<b>FGIC</b>	A3 on review for possible downgrade	AA "developing watch"	AA Negative Watch
<b>FSA</b>	Aaa Stable Outlook	AAA Stable Outlook	AAA Stable Outlook
<b>MBIA</b>	Aaa on review for possible downgrade	AAA Negative Watch	AAA Negative Watch
<b>RADIAN</b>	Aa3 Stable Outlook	AA Stable Outlook	A-plus "evolving watch"
<b>XL</b>	A3 Negative Outlook	AAA Negative Watch	A Negative Watch

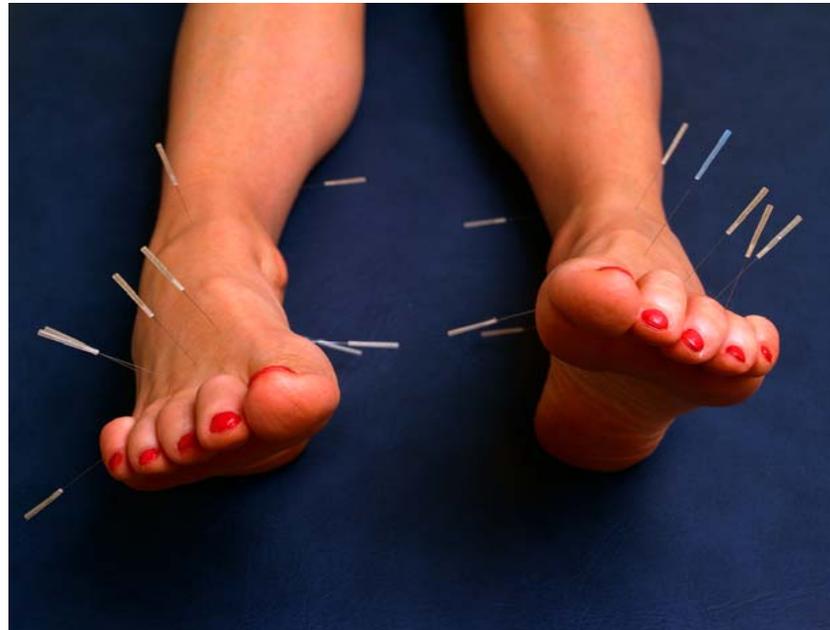
## Since then

The meltdown of the Auction Rate Market has created a liquidity crisis that has spilled over into all areas of public finance.

“Say It Ain't So, Municipal Bonds Are the New Junk” - Joe Mysak – Bloomberg News February 1, 2008



# Choosing Credit Enhancement Today



It got issuer's on pins and needle

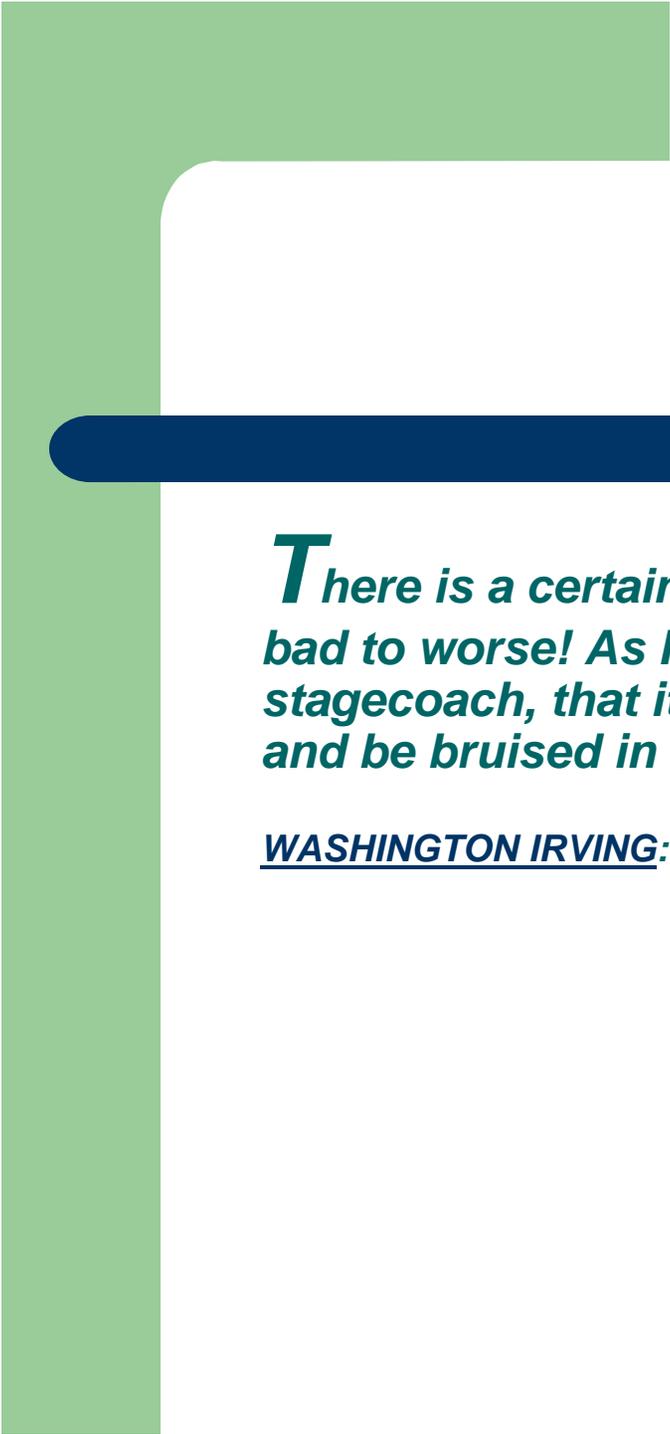
# Stick to the Fundamentals

- Variable rate has interest rate risk
  - is this a good time to issue variable?
- Credit Enhancement can't make a bad credit good.
  - if its not investment grade there's a reason
- Lower debt service costs for an issuer is the primary reason for using credit enhancement



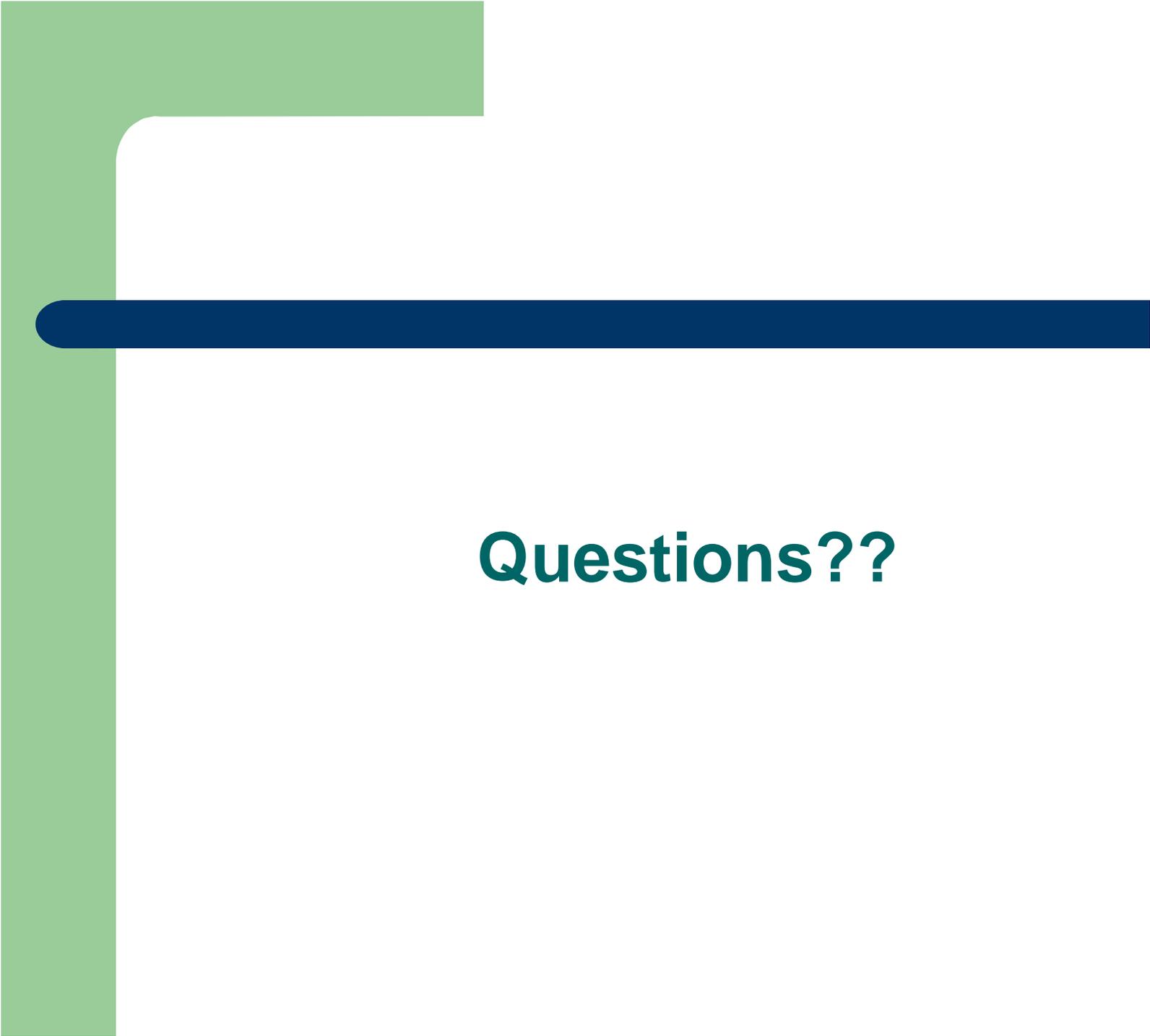
“Courage is going from failure to failure without losing enthusiasm.”

WINSTON CHURCHILL



***T***here is a certain relief in change, even though it be from bad to worse! As I have often found in traveling in a stagecoach, that it is often a comfort to shift one's position, and be bruised in a new place.

WASHINGTON IRVING:



**Questions??**